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SIPDIS

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SUBJECT: BASOTHO PUBLIC ENTHUSIASM WANING FOR YET-UNSIGNED MCC COMPACT

REF: MASERU 149

[1](#)1. Summary: At an April 4 luncheon with GOL Ministers held in honor of AF/S Director Dan Mozena's visit, government discussion focused mainly on the status of Lesotho's proposal for Millennium Challenge Account funds. Ministers urged MCC Associate Country Director Deidra Fair for incremental release of pre-Compact funds. Ministers Thahane and Malie reiterated the government's request for a Compact-signing timeline and a specific list of objectives to accomplish throughout the term of the Environmental Impact Assessment (EIA). Ministers asserted that the initially enthusiastic Basotho are losing interest as the third annual qualification for MCC approaches, yet monies remain un-disbursed. Mozena noted that in the U.S., the lengthy start-up time of the new agency had frustrated some since only one compact had been announced. The ministers also discussed regional trade issues, the current condition of SADC, the state of U.S. - SACU Free Trade Agreement negotiations, and the upcoming local government elections. Note: before she departed Maseru, Fair did provide much of the information requested. End Summary

GOL VIEWS

[1](#)2. During AF/S Director Mozena's familiarization visit to Maseru, April 3-6, 2005, Ambassador Perry hosted an April 4 luncheon gathering of ministers. Minister of Foreign Affairs Moleleki, Minister of Finance Thahane, Minister of Trade and Industry, Cooperatives and Marketing Malie, Minister of Agriculture Phororo, and Minister of Local Government Sekatle attended. MCC Associate Country Director Deidra Fair, who travelled to Lesotho March 30 - April 9, 2005, for follow-up meetings and the April 7-8 Private Sector Development Forum (to be reported septel), also attended.

[1](#)3. While Lesotho qualified to compete for MCC funds in 2004 and 2005 (and expects to qualify again in 2006) the GOL faces increasing public skepticism for a program that initially generated countrywide excitement, according to Minister Malie. He suggested holding a press event to release a loose timeline and explain the current status of Lesotho's proposal, because he perceived growing discontent among Basotho who are eagerly anticipating the job creation implicit in infrastructure and water development projects. Ministers agreed that pre-Compact release of some resources could revitalize public interest in the bulk-water and infrastructure development projects. Ministers enunciated the GOL's desire to have a checklist of triggers, linked to a specific timeline, demarcating disbursement of funds at particular junctures. Mr. Mozena reported a growing climate of concern among U.S. constituencies regarding deficit spending, and encouraged the GOL to move quickly to utilize MCC funds before Congress might have an opportunity to make funds unavailable.

MCC Response

[1](#)4. In response, Ms. Fair reassured that despite domestic imperatives, Lesotho would indeed have access to all three years' money upon completion of the Compact. She also indicated that although the MCC was not yet ready to commit to such a precise timeline, the agency continues to consider gradual-disbursement structures. The critical milestone for moving forward with Lesotho's MCC Compact will be the completion of the EIA, but, she added, many interim measures should be taken, namely private sector reforms, improvement of access to credit, initiation of hydro- and geologic feasibility studies at the Metolong Dam Site, and passage of gender and land tenure legislation. Instead of concentrating on project upstarts such as roads and electricity extension, which are actually incorporated into Lesotho's dam proposal, the GOL should submit to the MCC a proposal addendum making a stronger case for how the dam project will elicit poverty reduction and development, sector by sector.

[1](#)5. MFA Moleleki suggested that the EIA be conducted in conjunction with early phases of the dam project, its findings utilized as a tool to mitigate projected negative impacts. While the GOL would prefer such a "turnkey" operation, the minister alluded to failure of this method during earlier

highlands projects and ensuing scandals. Ms. Fair emphasized in response that dam projects always invite intense scrutiny from Congress and the American public, and that a completed EIA and mitigation program would be necessary before funds for the Compact could be released. As far as the MCC and Congress are concerned, a concurrent EIA and construction timeline would not be acceptable. Mr. Mozena added that while on-paper reforms are necessary, investment-flow into Lesotho would depend heavily upon the perception of a business-enabling environment, stemming

MASERU 00000182 002 OF 002

from de facto positive experiences of existing business people in Lesotho.

16. Minister Sekatle requested explanation of the differences between Lesotho's and Madagascar's MCC timelines, and Ambassador Perry cited Madagascar's successful conduction of truly free and fair (though difficult) national elections and pursuit of politically risky reforms as clear signals to the U.S. of that country's commitment. Madagascar's proposal also encompasses diverse rural development goals rather than a single, contentious infrastructure development project, which made for an easier "sell" to the U.S. public and Congress.

Regional Trade Structures; Local Elections

17. Regarding the end of Lesotho's term as chair of the SADC organ troika, Ministers Malie, Thahane, and Phororo classified the recently-restructured organization as "more executive" and less dynamic, neither clarifying the specific roles member states are to play, nor rendering less blurry the overlap between NEPAD and SADC. Internal conflicts of interest caused by dual memberships in entities such as COMESA and SACU obstruct U.S. dialogue with SADC, but the Minister of Agriculture asked how the entire organization could be ostracized due to the behavior of one member. Mr. Mozena reminded that the remaining SADC member states have repeatedly refused U.S. offers to engage in dialogue excluding Zimbabwe.

18. Discussions also covered the state of U.S. - SACU FTA negotiations. Minister Malie attributed the stalemate, which stalled at the introduction of "second phase" issues including government procurement and the environment, to a lack of flexibility on the part of the U.S. regarding the template although the GOL has been one of the leading proponents of the SACU-FTA. Mozena explained that the U.S. presents the FTA as a package rather than a phased agreement in order to sell the policy in an increasingly hostile domestic environment.

19. Other topics included the April 30, 2005 local government elections and the vocal opposition to the requirement for 1/3 of seats to go to female candidates. Minister Sekatle pointed out that in many districts the GOL expects as many as 50% or more seats to go to women, and described one constituency where women already hold nine of eleven local leadership positions. Mr. Mozena concluded by commending the Government of Lesotho for its commitment to key U.S. interests, namely democracy and liberty, and aggressive approach to combat the spread of HIV/AIDS.

110. Comment: While the ministers' concern about the slow pace of the MCC proposal approval process is understandable from their point of view, it should be noted that the original proposed Compact submitted in late September of 2004 required substantial reworking. The second version was ready only a few days before the MCC technical team visit in March (ref). As the team noted then, large infrastructure projects, particularly involving dams, will undergo intense examination both within the MCC and by Congress, thus lengthening project preparation time.

After consultations with the Ambassador and subsequently with DCM and AF/S Director as well as with the MCC home office, Ms. Fair did provide the GOL an excellent informal timeline of the remaining steps in the approval process and a list of actions that the GOL should undertake while the EIA is conducted. MCC may be able to assist in funding some of these activities -- a measure that would address the public concerns noted. End Comment.

PERRY